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C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 001367

SIPDIS

ENERGY FOR ALOCKWOOD AND LEINSTEIN, DOE/EIA FOR MCLINE
HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR MKACZMAREK
COMMERCE FOR 4332/MAC/WH/JLAO
NSC FOR DRESTREPO AND LROSSELLO

E.O. 12958: DECL: 10/23/2019
TAGS: [EPET](#) [EINV](#) [ENRG](#) [ECON](#) [VE](#)
SUBJECT: VENEZUELA: GBRV IMPOSES WATER AND ELECTRICITY
RATIONING THROUGH THE END OF 2009

REF: A. 08 CARACAS 1228
[1](#)B. CARACAS 981
[1](#)C. CARACAS 1318

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Classified By: Economic Counselor Darnall Steuart, for reasons
1.4 (b) and (d).

[1](#)1. (SBU) SUMMARY: Faced with water and electrical shortages, Venezuelans are facing outages and rationing of both. In response to the growing electrical crisis affecting the entire country, President Chavez has announced an emergency plan that includes the creation of a new electricity ministry and commission. Chavez also announced the appointment of a PSUV party stalwart as the new Minister. While a regular annoyance to residential consumers, electrical rationing and outages are now notably affecting industry. After a decade of negligible investment in the sector, it will likely be difficult for Venezuela to find a quick solution to its electrical problems. END SUMMARY.

WATER RATIONING IN CARACAS

[1](#)2. (SBU) According to press reports, Alejandro Hitcher, the president of Hidrocapital, Caracas' water authority, announced on October 21, that water rationing for Caracas would start on Monday, October 26 and is expected to continue through December. He claimed that the city's water supply is 25 per cent lower than normal at this time of the year. Hitcher added that Hidrocapital would not be able to provide a rationing schedule as it is attempting to modify an aqueduct so that no area of the capital would be left without water for more than 48 hours at a time.

CHAVEZ ANNOUNCES ELECTRICITY PLAN

[1](#)3. (SBU) The evening of October 21, President Chavez announced a series of emergency measures to confront the country's growing electricity crisis following a meeting with his Council of Ministers. The package of emergency measures designed to reduce consumption include:

- The creation of a Ministry for Electricity (NFI).
- The formation of a "Strategic Commission" headed by Executive Vice President Ramon Carrizales and composed of

"workers" (NOTE: No further information on this body,s activities or mission was provided. END NOTE.)

- Public offices were ordered to reduce consumption by twenty per cent.
- The imposition of a ban on non-energy efficient imported electrical equipment.
- State-owned industrial companies, including PDVSA, were instructed to present within fifteen working days a plan to reduce energy consumption that prioritizes constructive activities.
- Venezuela's umbrella electricity utility, Corpolec, was instructed to present within five working days a plan to upgrade and modernize the infrastructure related to electricity generation, distribution, and transmission.
- Chavez also announced a review of Corpolec's structure noting that the integration of several private companies, (many expropriated) has increased bureaucracy rather than decreased it.

The evening of October 22, President Chavez announced the appointment of Angel Rodriguez (PSUV National Assembly Deputy from Anzoategui and Chairman of the Committee on Energy and Mines) as the new Minister for Electricity and as the new President of Corpolec.

(NOTE: In 2007, the Bolivarian Republic of Venezuela (GBRV) determined that the power system was a strategic sector and the State quickly acquired the most important private companies operating in Venezuela. The cornerstone of the reorganization process was the creation of Corpolec in May 2007. The company was designed to group all of Venezuela's power industry activities, including the consolidation of eight now State companies -- Cadafe, Edelca, EdC, Enelven, Enelco, Enelbar, Eleval, and Seneca, under one umbrella

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managed by the State. END NOTE.)

14. (SBU) Earlier in October, Corpolec officials announced a plan to reduce demand by 30 per cent with a goal to achieve 10 per cent of the reduction before December and the remaining 20 per cent in 2010. Then Corpolec President Hipolito Izquierdo maintained that electricity demand in 2009 has grown 7.1 per cent, above the average annual growth in demand of 4.5 per cent since 2004. He claimed that the decline of activity in the basic industries in Guyana has been offset by various government projects (such as processing plants and subway systems). Corpolec Vice President of Distribution and Marketing Honorio Gonzalez stated that Cadafe reported a demand increase of 11 per cent this year, attributed to increased consumption made possible by the population's improved quality of life and the Government of the Bolivarian Republic of Venezuela,s (GBRV) social and economic policies.

15. (SBU) Izquierdo also said that the water level in the Guri Reservoir is decreasing "inches every day" because of El Nino, which has caused complications in the area's hydroelectric plants. He announced a plan for cloud seeding surrounding the Guri Dam (hydroelectric plant) to alleviate the affects of an abnormally low water table in the reservoir.

16. (SBU) Izquierdo also noted Corpolec's plan to supplement hydroelectric shortfalls with increased thermoelectric generation during "key demand hours" and to accelerate all infrastructure projects currently underway, which will, he claimed, result in an additional 1,000 megawatts (MW) of generation by the end of 2009. The "Plan for Efficiency and Energy Savings" includes the installation of 50 million energy saving light bulbs between October 2009 and July 2010) a policy that is expected to save 1,500 MW. Corpolec also plans to connect PDVSA and Pequiven's (oil and chemical industries) proprietary electrical grids to the national grid. Finally, Corpolec plans a tariff increase for high-energy consumers. Izquierdo claimed that there are numerous possibilities for Venezuela to reduce energy

consumption, noting that it has the highest per capita electricity consumption rate in all of Latin America.

WIDESPREAD ELECTRICITY RATIONING IN VENEZUELA

17. (SBU) According to press reports on October 19, the Director General of Cadafe Region 2, Lenny Gonzalez, stated that the state of Monagas is already subject to rationing and electrical outages like the rest of the country. Specifically, he claimed that during peak hours (11:00 a.m. to 4:00 p.m. and 6:00 p.m. to 7:00 p.m.) the local grid was subject to interruptions. Corpolec subsidiary, Enelbar, is rationing residential electricity from 1:00 p.m. to 3:00 p.m. and from 6:30 p.m. to 9:00 p.m. daily. According to the media, Corpolec also plans to ration electricity in the states of Carabobo and Yaracuy for residences during the day and industry at night.

18. (SBU) Press reports indicate that Corpolec ordered electricity rationing at Venezuela's national steel plant, Sidor, as of October 15 from 6 p.m. until 11 p.m. daily. Sidor Labor Director Jose Jimenez told the press that the contingency measures have resulted in seven kilns being shutdown five hours per day. While the exact impact on steel production is unknown, Jimenez stated that the reduced operational hours would save 300 megawatts out of the 1,000 megawatts consumed daily.

19. (SBU) The Director of the Industrial Chamber of Carabobo Horacio Labbe has petitioned Corpolec to produce an electricity-rationing schedule to enable factories to plan manufacturing operations around the planned outages. Labbe pointed out that lost production impacts Venezuela's exports and that it would be difficult to recapture lost markets. Additionally, he said that factories should use available operational time to prioritize production to meet domestic needs first.

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Investments and PetroDiplomacy

10. (SBU) On October 14, the Inter-American Development Bank (IDB) approved a \$200 million loan to the GBRV to help improve electricity services by boosting Corpolec's efficiency. On October 19, the IADB apparently signed a finance agreement to contribute an additional \$800 million to the Manuel Piar hydroelectric plant in Bolivar. According to Venezuela's Finance Minister Ali Rodriguez, the IADB contribution to the project, which is expected to cost \$4.3 billion, now totals \$1.75 billion. He explained that the IADB provided \$750 million during the initial phase of the plant. With the new financing for \$800 million and the \$200 million from earlier in October, the IADB's portion stands at \$1.75 billion. (NOTE: According to the press, Manuel Piar will be the fourth hydroelectric plant to be built on the Caroni River. Its first turbine is expected to be operational in 2012 and its last should be online by 2014. END NOTE.) According to press reports, on the margins of the ALBA summit in Bolivia this week, President Chavez agreed to provide Nicaragua's President Ortega the financing for the first phase of the "Pacific Irrigation Project," with a total price tag of 2.145 billion USD. PDVSA and YPFB of Bolivia have apparently agreed to jointly invest \$80 million to install a 100 MW diesel-fired thermoelectric power plant in Cochabamba, Bolivia.

11. (C) COMMENT: Water and electricity rationing are not new measures in Venezuela and President Chavez's last minute emergency measures track with his governing style) as does his announcement of yet another new ministry. It is hard to imagine how the creation of an electricity ministry will help resolve the country's electrical problems in the near term. Likewise, the installation of efficient lightbulbs is an on-going program that is not likely to produce sufficient energy savings. These largely political moves are likely to

fall short of providing efficient structural solutions, resulting in an erratic power supply throughout Venezuela for the foreseeable future.

¶12. (C) The decision to link PDVSA and Pequiven,s generation, distribution, and transmission networks to the national grid could expose these critically important State sectors to the same risk of outages suffered by other industrial sectors. It is ironic that the increase in electricity consumption has been driven by increased consumption produced by high oil prices. More equipment, e.g., air conditioners, combined with politically-mandated utility price freezes have left Venezuela without sufficient power to keep up with demand. END COMMENT.
DUDDY